DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
SUPPLEMENTAL RECORD REQUESTS OF THE
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY
D.T.E. 01-81

Date: February 14, 2003

Witness Responsible: Francisco C. DaFonte

DTE-RR Sup. 1-10:

Please refer to page 2 of Bay State's Motion for Clarification. The Company states that "any restriction applied to the Company's physical gas purchases in the GCIM program (including those to meet storage injection requirements) creates an unintended opportunity for the Company to "game" the operation of the GCIM because the Company would be in a position to "select" which purchases (of total system requirements) to compare to a benchmark". If the Company was not left to its own discretion to "select which purchases (of total system requirements) to compare to a benchmark", and instead the D.T.E. established parameters for contract "selection" (i.e., such as select highest priced contracts first), would the Company still have the potential to "game"? Wouldn't this be a alternative to "avoid this potential for gaming" rather than resorting to "the inclusion of 100 percent of the Company's domestic physical gas purchases in the GCIM program."

Response: While it is possible that some method to select contracts could be invented to eliminate potential gaming, such as that noted in the request, the potential benefits of the GCIM would be significantly dampened or eliminated entirely. The innovative purchasing tactics that the GCIM would promote are primarily opportunistic in nature and the specific outcome of each strategy would be unknown in advance. As a result, Bay State would have no way of knowing whether the physical purchase associated with a particular strategy would ultimately be considered inside or outside of the GCIM effectively rendering the Company unable to adapt to or take advantage of changing market conditions. Moreover, Bay State believes that these parameters would unduly complicate the GCIM program by creating the potential for disagreement between the Company and the D.T.E. on "after the fact" subjective decisions. This is clearly counter to the Company's stated goal of establishing

performance metrics that are objective and provide for a streamlined "regulatory review process". FCD testimony p.15, lines 11-12.

The only conceivable way to segregate the contracts between the GCIM and non-GCIM customer groups that would not create potential disputes would be designate separate storage and commodity contracts portfolios in advance. However, this would eliminate important portfolio benefits of integrating the diversity benefits of aggregating residential and C&I customers together and would lead to higher costs for both groups.

In addition, the notion that highest priced contracts would be selected first also creates subsidies across rate classes, which all parties would certainly like to avoid. For example, if all purchases selected for inclusion in the GCIM calculation (25%) were, hypothetically, above the benchmark and the remaining purchases (75%) were below the benchmark, then the residential customer class would not realize their allocated share of the benefits of purchases made below the benchmark. In this example, since 25 percent of the purchases are above index, the Company would absorb all of the net losses, keeping the residential customer class insulated from the higher costs associated with 25 percent of their normal annual purchase requirements. However, since the remaining purchases are all below the index, the C&I customer classes will receive a disproportionately greater share of the benefits derived from these lower price purchases since they were never allocated a percentage of the purchases above the benchmark.

This example demonstrates that the notion of selecting higher priced contracts first is directly counter to the Company's Motion for Clarification, which would insulate C&I customers from purchases above or below established benchmarks.